



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

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Subject: Council Conclusions on Tax and Development - Cooperating with Developing countries in promoting good governance in tax matters

Delegations will find in the Annex to this note the above Council Conclusions, which were adopted by the Council on 14 June 2010.

**COUNCIL CONCLUSIONS
ON**

**TAX AND DEVELOPMENT -
COOPERATING WITH DEVELOPING COUNTRIES IN PROMOTING
GOOD GOVERNANCE IN TAX MATTERS**

1. Mobilisation of domestic resources for development through efficient and fair tax systems is crucial for sustainable growth, reducing aid dependency, poverty reduction, good governance and state building, including the provision of public services required to achieve the Millennium Development Goals (MDGs). Efficient and fair tax systems are integral to democracy, promote state legitimacy and strengthen the social contract and accountability between government and citizens.
2. Capital flight, including tax evasion and avoidance, and illicit financial flows have been identified as a major obstacle to domestic resource mobilization. This is facilitated by tax systems vulnerable to harmful tax practices and non-cooperative jurisdictions, and requires joint efforts from developed and developing countries.
3. The Council welcomes the Commission Communication on “Cooperating with Developing Countries on Promoting Good Governance in Tax matters”¹, and supports its proposals with the following objectives:
 - a) Strengthen support to tax systems and domestic revenue mobilization in developing countries, in the context of its broader efforts to promote and implement principles of good governance and public finance management in these countries;

¹ Doc. 8891/10

- b) Promote the principles of good governance in tax matters, work towards a transparent and cooperative international tax environment and support developing countries to fight against tax evasion and other harmful tax practices.
4. Developing countries have primary responsibility for building and improving efficient and fair tax systems and committing the necessary resources thereto. The EU and its Member States will support developing countries in tax policy, tax administration and tax reforms, including the fight against tax evasion and other harmful practices. This support may in particular assist in tackling domestic and international challenges that hamper developing countries' capacity to raise tax revenues with a view to support national reform agendas, on issues such as to:
- a. Address the adequate level of, and balance between, direct and indirect taxes, the scope of the tax base and the suitable distribution of the tax burden, bearing in mind the country's economic structure, its potential for generating sustainable revenues and the goal of ensuring social cohesion;
 - b. Incorporate the informal economy to the formal one, drawing sustainable investments that generate decent work, and promoting small and medium enterprises;
 - c. Give tax administrations, including at local level, the necessary means and strengthen capacity to effectively process tax information and ensure tax compliance for all economic actors, national and international;
 - d. Analyse public finance implications of the tax benefits given by developing countries to attract investment;
 - e. Support for national oversight bodies, Parliaments and their technical expertise, and non-state actors, so as to enable them to assess and meaningfully contribute to formulation and oversight of national budgets, including of domestic revenues from tax collection and from resource extraction, to ensure public scrutiny of public financial management, as well as to the fight against tax fraud and its impact.

5. The architecture of budget support programmes and activities facilitates the use of policy dialogue, performance measurement and capacity support to strengthen tax systems and to increase the domestic revenues. The procedures and tools designed for PFM (Public Finance Management) are also relevant for improving revenue mobilization. The Public Expenditure Financial Accountability (PEFA) framework, which includes indicators on revenue, offers one avenue for this.
6. When assisting developing countries to strengthen their tax systems, particular emphasis should be put at EU level on the introduction of a programmatic and comprehensive approach to support demand driven tax administration reforms and improvement in donor coordination in the tax area. The Council also encourages the Commission and the Member States to actively support, including financially, already established regional tax administration frameworks, such as CIAT (Centro Inter-Americano de Administraciones Tributarias) and ATAF (African Tax Administration Forum) as well as IMF Regional Technical Centres. Enhanced support to regional integration processes is also important in terms of strengthening the transparency and efficiency of tax systems.
7. The EU and its Member States should enhance their support to the EITI (Extractive Industries Transparency Initiative), which is an increasingly effective tool to strengthen governance through promoting transparency and mutual accountability in natural resource-rich settings, and consider expanding similar practices to other sectors.
8. Within the remit of their respective competences, the EU and its Member States should also further promote a transparent and cooperative international tax environment, including the principles of good governance in tax matters. In this regard, the EU and its Member States should enhance the aspects of policy coherence for development, and work towards:

- a. Exploring country-by-country reporting as a standard for multinational corporations, by encouraging the OECD to pursue its work on country-by-country reporting, including as regards the OECD Guidelines for Multinational Enterprises and its Principles of Corporate Governance and on propriety, integrity and transparency in the conduct of international business and finance. In addition, Member States should support ongoing consultation work by the IASB (International Accounting Standard Board) on a country-by-country reporting requirement in IFRS 6 (International Financial Reporting Standard 6) for the extractive sector, and encourage the IASB to look beyond the extractive sector;
- b. A global system for exchange of tax information, including through multilateral instruments, building on the EU and OECD experiences on spontaneous, on-request and automatic exchange of information. First steps at the international level could be to promote the availability of the beneficial ownership of all legal structures taking note of the ongoing review of the international standards of the Financial Action Task Force, as well as to strengthen the role of the Global Forum on Transparency and Exchange of Information. The EU and its Member States should also support the strengthening of developing countries' administrative capacities to negotiate TIEAs (Tax Information Exchange Agreements) and sign TIEAs. The EU should also support efforts to ensure that OECD standards are relevant and applicable to developing countries, especially LDCs;
- c. Reducing incorrect transfer pricing practices, including by paying special attention to the development of local audit capacities. The EU will promote research on innovative approaches to help developing countries to assess liabilities of their taxpayers at low cost, and support the adoption and the implementation of the OECD Guidelines on Transfer Pricing;
- d. Promoting asset recovery by, inter alia, supporting the Stolen Assets Recovery (StAR) initiative which is regarded as a valuable initiative in this field;

- e. International Financial Institutions (IFIs):
- Following international common criteria concerning investments in non-cooperative jurisdictions according to the G20 Statement. Progress made in this field by the EIB should serve as a benchmark. IFIs must carry out a broad based due diligence to avoid that EU funds are being used directly or through Offshore Financial Centers, so-called tax havens or any other jurisdiction, for the purpose of evading tax payment to beneficiary countries and EU Member States or in connection with tax fraud and avoidance;
 - Including in the Reports on Observance of Standard and Codes (ROSCs) (i) whether or not a country is committed to the exchange of tax information and (ii) whether or not a country treats fraud as a criminal offence that requires a report such as it is the case with money laundering.
9. Participation of developing countries in the structures and procedures of international tax cooperation should be strongly encouraged. The Council supports the adoption and implementation of international standards currently discussed in international fora, including in the United Nations and the OECD, with a greater involvement of developed countries, emerging economies and developing countries, and with a stronger involvement of all in the International Tax Dialogue and International Tax Compact.
10. The Council will review progress in implementing these actions and calls on the Commission to facilitate this process by covering these aspects in the Monterrey report.